

**EMMETSBURG
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-----------------|
| Officials | 1 |
| Independent Auditor's Report | 2-3 |
| Management's Discussion and Analysis | 4-11 |
| Basic Financial Statements: | <u>Exhibit</u> |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | A 12 |
| Statement of Activities | B 13-14 |
| Governmental Fund Financial Statements: | |
| Balance Sheet | C 15 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | D 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E 17-18 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities | F 19 |
| Proprietary Fund Financial Statements: | |
| Statement of Revenues, Expenses and Changes in Net Assets | G 20 |
| Statement of Cash Flows | H 21 |
| Fiduciary Fund Financial Statements: | |
| Statement of Fiduciary Net Assets | I 22 |
| Notes to Financial Statements | 23-30 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund | 31 |
| Budgetary Comparison Schedule - Budget to GAAP Reconciliation | 32 |
| Notes to Required Supplementary Information - Budgetary Reporting | 33 |
| Other Supplementary Information: | <u>Schedule</u> |
| Nonmajor Special Revenue Funds: | |
| Combining Balance Sheet | 1 34 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 2 35 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 36-37 |
| Comparison of Taxes and Intergovernmental Revenues | 4 38 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 39-40 |
| Schedule of Findings | 41-42 |

EMMETSBURG COMMUNITY SCHOOL DISTRICT

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------|--------------|---------------------|
|-------------|--------------|---------------------|

BOARD OF EDUCATION

(Before September, 2004 Election)

| | | |
|------------------|----------------|------|
| Jeff Morey | President | 2005 |
| Dean Gunderson | Vice President | 2004 |
| David Kassel | | 2004 |
| Mary Cooper | | 2004 |
| Dave Van Oosbree | | 2006 |
| Thomas Stillman | | 2005 |
| Karla Anderson | | 2006 |

(After September, 2004 Election)

| | | |
|------------------|----------------|------|
| Jeff Morey | President | 2005 |
| Thomas Stillman | Vice President | 2005 |
| Don Hagen | | 2007 |
| Paul Herbers | | 2007 |
| Dave Van Oosbree | | 2006 |
| Steve Pelzer | | 2007 |
| Karla Anderson | | 2006 |

SCHOOL OFFICIALS

| | |
|------------------|----------------------------------|
| Paul Tedesco | Superintendent |
| Patricia Swanson | District Secretary/ Treasurer |

Independent Auditor's Report

To The Board of Education of the
Emmetsburg Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Emmetsburg Community School District, Emmetsburg, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Emmetsburg Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 23, 2005 on our consideration of Emmetsburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Emmetsburg Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Emmetsburg Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- ! General Fund revenues increased from \$6,063,390 in fiscal 2004 to \$6,338,110 in fiscal 2005, while General Fund expenditures decreased from \$5,970,063 in fiscal year 2004 to \$5,751,829 in fiscal 2005.
- ! The decrease in expenses is due to reduced grant activity as well as spending reductions, most notably in administration costs.
- ! General Fund property tax revenues increased over \$300,000 primarily from the cash reserve levy which was done in order to have cash to backup the unspent authorized budget.
- ! The amount of District expenditures as allowed by the school finance formula has exceeded the cash on hand due to state aid cuts that allow the District to spend budgeted amounts but do not provide corresponding cash funds. The cash reserve levy allows the District to recoup some of the this shortfall.
- ! The General Fund balance increased over \$500,000 to finish the year with a positive balance of over \$600,000. Just two years ago, the District's General Fund was in a deficit financial position.
- ! The District began collecting local option sales and services taxes in fiscal year 2005. This money is to be used for property tax relief, debt retirement, equipment and building projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Emmetsburg Community School District

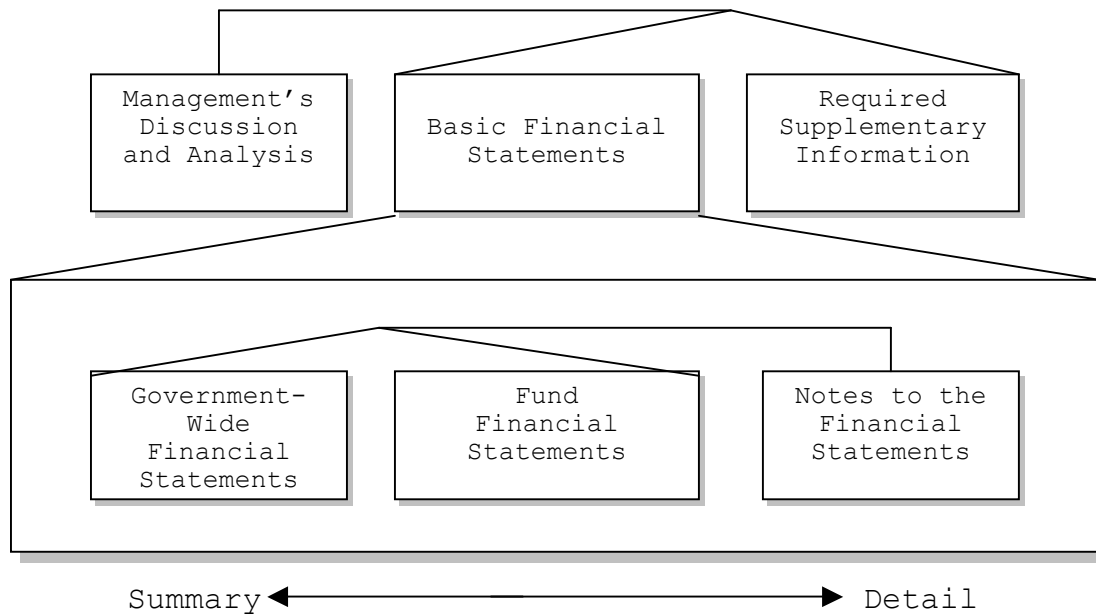


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

| Figure A-2 Major Features of the Government-Wide and Fund Financial Statements | | | | |
|---|--|--|---|---|
| | Government-Wide Statements | Fund Financial Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district | The activities of the district that are not proprietary, such as special education and building maintenance | Activities the district operates similar to private businesses, such as food service | Instances in which the district administers resources on behalf of someone else |
| Required financial statements | . Statement of net assets . Statement of activities | . Balance sheet . Statement of revenues, expenditures, and changes in fund balances | . Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows | . Statement of fiduciary net assets . Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- ! **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- ! **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds.

! Agency Fund - The District accounts for the flex benefit program in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

| | Governmental | | Business-type | | Total | | Percentage |
|--|---------------------|--------------|----------------------|-------------|------------------------|--------------|-------------------|
| | Activities | | Activities | | School District | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2004-2005 |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Current assets | 5,103 | 4,537 | 12 | 18 | 5,115 | 4,555 | 12.29% |
| Capital assets | 2,812 | 2,081 | 6 | 8 | 2,818 | 2,089 | 34.90% |
| Total assets | 7,915 | 6,618 | 18 | 26 | 7,933 | 6,644 | 19.40% |
| Current liabilities | 3,772 | 4,050 | 3 | - | 3,775 | 4,050 | -6.79% |
| Non-current liabilities | 271 | 415 | - | - | 271 | 415 | -34.70% |
| Total liabilities | 4,043 | 4,465 | 3 | - | 4,046 | 4,465 | -9.38% |
| Net Assets | | | | | | | |
| Invested in capital assets, net of related debt | 2,562 | 1,706 | 6 | 8 | 2,568 | 1,714 | 49.82% |
| Restricted | 317 | 335 | | | 317 | 335 | -5.37% |
| Unrestricted | 993 | 112 | 9 | 18 | 1,002 | 130 | 670.77% |
| Total net assets | 3,872 | 2,153 | 15 | 26 | 3,887 | 2,179 | 78.38% |

Unrestricted net assets grew as a result of three primary factors.

- 1) Increased property tax revenue due to cash reserve levy.
- 2) Local Option Sales and Services Tax being collected for the first time.
- 3) Expenditures for equipment and building improvements that require current year revenues, but are depreciated out over several years.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

| | Governmental Activities | Business-type Activities | Total School District |
|--|----------------------------|-----------------------------|-----------------------------|
| | \$ | \$ | \$ |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for service and sales | 488 | 192 | 680 |
| Operating grants, contributions and restricted interest | 1,029 | 137 | 1,166 |
| General revenues: | | | |
| Property tax | 2,730 | - | 2,730 |
| Income surtax | 571 | - | 571 |
| Local option sales tax | 243 | - | 243 |
| Unrestricted state grants | 2,365 | - | 2,365 |
| Unrestricted investment earnings | 21 | - | 21 |
| Other | 19 | - | 19 |
| Total revenues | <u>7,466</u> | <u>329</u> | <u>7,795</u> |
| Program expenses: | | | |
| Governmental activities: | | | |
| Instruction | 3,957 | - | 3,957 |
| Support Services | 1,549 | - | 1,549 |
| Non-instructional programs | - | 341 | 341 |
| Other expenses | 241 | - | 241 |
| Total expenses | <u>5,747</u> | <u>341</u> | <u>6,088</u> |
| Change in net assets | <u>1,719</u> | <u>(12)</u> | <u>1,707</u> |

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,466,262 and expenses were \$5,747,328.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

| Figure A-5 | | |
|--|---------------------------|-------------------------|
| Total and Net Cost of Governmental Activities | | |
| (expressed in thousands) | | |
| | Total Cost of Services | Net Cost of Services |
| | \$ | \$ |
| Instruction | 3,957 | 2,692 |
| Support Services | 1,549 | 1,529 |
| Other expenses | <u>241</u> | <u>10</u> |
| Totals | <u>5,747</u> | <u>4,231</u> |

! The cost financed by users of the District's programs was \$487,999.

! Federal and state governments subsidized certain programs with grants and contributions totaling \$775,763.

! The net cost of governmental activities was financed with \$2,730,774 in property tax, \$2,364,573 in state foundation aid, and \$20,743 in interest income.

Proprietary-Type Funds

Revenues for the District's School Nutrition Fund were \$329,188 and expenses were \$341,149. The revenues include charges for services, contributions, and federal and state reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Emmetsburg Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$3,872,337, an 80% increase over last year's ending fund balance of \$2,153,403.

Governmental Fund Highlights

Several factors contributed to the small increase of the fund balance in the District's governmental funds.

! The District received over \$300,000 more in property taxes during the year.

! The District received \$243,000 in local option sales and service taxes.

! The District reduced expenditures in all areas, primarily administration.

! There was a decrease in payroll and related expenses. Over 70% of the budget is payroll related.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased approximately \$12,000 in Fiscal 2005 primarily due to increased food costs without a corresponding increase in revenues.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

The budget was amended during the year to reflect increased Medicaid costs as well as transportation and facility costs that were higher than anticipated. Actual expenditures did not exceed neither the amended budget amounts nor the unspent authorized budget.

CAPITAL ASSETS

The District has invested more than \$6 million by the end of fiscal year 2005 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all facilities during the year as well as purchased three new vehicles. Total depreciation expenses for the year exceeded \$170,000.

Long-Term Debt

The District had \$250,000 in capital loan notes outstanding. This represents a decrease of \$125,000 from the previous year. The principal and interest on the bonds will be paid in full by June 1, 2007. The District makes principal and interest payments annually on these loans using property tax dollars obtained through the Physical Plant and Equipment Levy.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- ! To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District was on budget guarantee for Fiscal Year 2004 and will continue to be on budget guarantee for several years to come. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- ! The District will need to monitor payroll expenses as they account for the vast majority of the budget.
- ! Alternative sources must be found due to funding inconsistencies on the parts of the federal and state governments.
- ! The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the Federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patricia Swanson, District Business Manager, Emmetsburg Community School District, 205 King Street, Emmetsburg, IA 50536.

Basic Financial Statements

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Cash and pooled investments | 935,666 | - | 935,666 |
| ISCAP investments | 1,055,880 | - | 1,055,880 |
| Receivables: | | | |
| Property tax: | | | |
| Current year | 57,993 | - | 57,993 |
| Succeeding year | 2,702,443 | - | 2,702,443 |
| Income surtax | 265,677 | - | 265,677 |
| Due from other governments | 76,137 | - | 76,137 |
| Other receivables | 1,726 | 139 | 1,865 |
| ISCAP accrued interest | 7,006 | - | 7,006 |
| Inventories | - | 11,548 | 11,548 |
| Capital assets, net of accumulated depreciation | 2,812,373 | 5,995 | 2,818,368 |
| Total assets | 7,914,901 | 17,682 | 7,932,583 |
| Liabilities | | | |
| Accounts payable | 9,914 | 3,172 | 13,086 |
| ISCAP warrants payable | 1,052,000 | - | 1,052,000 |
| ISCAP accrued interest payable | 7,543 | - | 7,543 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,702,443 | - | 2,702,443 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Early retirement payable | 20,664 | - | 20,664 |
| Capital loan notes payable | 125,000 | - | 125,000 |
| Portion due after one year: | | | |
| Capital loan notes payable | 125,000 | - | 125,000 |
| Total liabilities | 4,042,564 | 3,172 | 4,045,736 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 2,562,373 | 5,995 | 2,568,368 |
| Restricted for: | | | |
| Management levy | 23,993 | - | 23,993 |
| Physical plant and equipment levy | 109,555 | - | 109,555 |
| Capital projects | 183,083 | - | 183,083 |
| Unrestricted | 993,333 | 8,515 | 1,001,848 |
| Total net assets | 3,872,337 | 14,510 | 3,886,847 |

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

| | Program Revenues | | | | | |
|---|------------------|---------------------|---|-------------------------|--------------------------|--------------------|
| | Expenses | Charges for Service | Operating Grants, Contributions and Restricted Interest | Governmental Activities | Business-Type Activities | Total |
| | | | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Functions/Programs | | | | | | |
| Governmental activities: | | | | | | |
| Instruction: | | | | | | |
| Regular instruction | 2,557,679 | 414,889 | 310,595 | (1,832,195) | - | (1,832,195) |
| Special instruction | 955,735 | 73,110 | 200,987 | (681,638) | - | (681,638) |
| Other instruction | 443,463 | - | 265,126 | (178,337) | - | (178,337) |
| | <u>3,956,877</u> | <u>487,999</u> | <u>776,708</u> | <u>(2,692,170)</u> | <u>-</u> | <u>(2,692,170)</u> |
| Support services: | | | | | | |
| Student services | 231,101 | - | 4,320 | (226,781) | - | (226,781) |
| Instructional staff services | 158,401 | - | - | (158,401) | - | (158,401) |
| Administration services | 573,344 | - | - | (573,344) | - | (573,344) |
| Operation and maintenance of plant services | 436,930 | - | 16,365 | (420,565) | - | (420,565) |
| Transportation services | 149,604 | - | - | (149,604) | - | (149,604) |
| | <u>1,549,380</u> | <u>-</u> | <u>20,685</u> | <u>(1,528,695)</u> | <u>-</u> | <u>(1,528,695)</u> |
| Other expenditures: | | | | | | |
| AEA flowthrough | 231,258 | - | 231,258 | - | - | - |
| Interest on long-term debt | 9,813 | - | - | (9,813) | - | (9,813) |
| Facilities acquisition and construction | - | - | - | - | - | - |
| | <u>241,071</u> | <u>-</u> | <u>231,258</u> | <u>(9,813)</u> | <u>-</u> | <u>(9,813)</u> |
| Total governmental activities | <u>5,747,328</u> | <u>487,999</u> | <u>1,028,651</u> | <u>(4,230,678)</u> | <u>-</u> | <u>(4,230,678)</u> |

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

| | Program Revenues | | | | |
|----------------------------------|------------------|----------------|--|----------------------------|-----------------------------|
| | | Charges for | Operating Grants, Contributions and Restricted Interest | Governmental Activities | Business-Type Activities |
| Expenses | Service | | | | Total |
| \$ | \$ | \$ | \$ | \$ | \$ |
| Business-Type activities: | | | | | |
| Non-instructional programs: | | | | | |
| Nutrition services | 341,149 | 191,617 | 137,571 | - | (11,961) |
| Total | <u>6,088,477</u> | <u>679,616</u> | <u>1,166,222</u> | (4,230,678) | (11,961) |
| General revenues: | | | | | |
| Property tax levied for: | | | | | |
| General purposes | | | | 2,487,354 | - |
| Management | | | | 100,251 | - |
| Capital outlay | | | | 143,169 | - |
| Income surtax: | | | | | |
| General purposes | | | | 334,957 | - |
| Capital outlay | | | | 236,693 | - |
| Local option sales tax | | | | 243,046 | - |
| Unrestricted state grants | | | | 2,364,573 | - |
| Unrestricted investment earnings | | | | 20,743 | - |
| Other | | | | 18,826 | - |
| Total general revenue | | | | 5,949,612 | - |
| Change in net assets | | | | 1,718,934 | (11,961) |
| Net assets beginning of year | | | | 2,153,403 | 26,471 |
| Net assets end of year | | | | <u>3,872,337</u> | <u>14,510</u> |

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

| | General | Capital Projects | Physical Plant and Equipment Levy | Nonmajor Special Revenue | Total |
|--|------------------|---------------------|--|--------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | |
| Cash and pooled investments | 562,888 | 144,035 | 108,115 | 120,628 | 935,666 |
| ISCAP investments | 1,055,880 | - | - | - | 1,055,880 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Current year | 52,865 | - | 2,997 | 2,131 | 57,993 |
| Succeeding year | 2,432,506 | - | 144,937 | 125,000 | 2,702,443 |
| Income surtax | 154,978 | - | 110,699 | - | 265,677 |
| Due from other governments | 37,089 | 39,048 | - | - | 76,137 |
| Other receivables | - | - | - | 1,726 | 1,726 |
| ISCAP accrued interest | 7,006 | - | - | - | 7,006 |
| Total assets | <u>4,303,212</u> | <u>183,083</u> | <u>366,748</u> | <u>249,485</u> | <u>5,102,528</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | 7,936 | - | 1,557 | 421 | 9,914 |
| ISCAP warrants payable | 1,052,000 | - | - | - | 1,052,000 |
| ISCAP accrued interest payable | 7,543 | - | - | - | 7,543 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 2,432,506 | - | 144,937 | 125,000 | 2,702,443 |
| Succeeding year income surtax | 154,978 | - | 110,699 | - | 265,677 |
| Total liabilities | <u>3,654,963</u> | <u>-</u> | <u>257,193</u> | <u>125,421</u> | <u>4,037,577</u> |
| Fund balances: | | | | | |
| Unreserved | 648,249 | 183,083 | 109,555 | 124,064 | 1,064,951 |
| Total fund balances | <u>648,249</u> | <u>183,083</u> | <u>109,555</u> | <u>124,064</u> | <u>1,064,951</u> |
| Total liabilities and fund balances | <u>4,303,212</u> | <u>183,083</u> | <u>366,748</u> | <u>249,485</u> | <u>5,102,528</u> |

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

| | |
|--|---------------------|
| Total fund balances of governmental funds (Exhibit C) | \$ 1,064,951 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. | 265,677 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 2,812,373 |
| Long-term liabilities, including notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(270,664)</u> |
| Net assets of governmental activities (Exhibit A) | <u>\$ 3,872,337</u> |

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

| | General | Capital Projects | Physical Plant and Equipment Levy | Debt Service | Nonmajor Special Revenue | Total |
|---|------------------|---------------------|--|-----------------|--------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | |
| Local sources: | | | | | | |
| Local tax | 2,667,333 | 243,046 | 269,163 | - | 100,251 | 3,279,793 |
| Tuition | 417,357 | - | - | - | - | 417,357 |
| Other | 113,261 | 37 | 15,009 | - | 234,792 | 363,099 |
| State sources | 2,931,909 | - | 104 | - | 73 | 2,932,086 |
| Federal sources | 208,250 | - | - | - | - | 208,250 |
| Total revenues | <u>6,338,110</u> | <u>243,083</u> | <u>284,276</u> | <u>-</u> | <u>335,116</u> | <u>7,200,585</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular instruction | 2,610,867 | - | - | - | 66,156 | 2,677,023 |
| Special instruction | 1,014,715 | - | - | - | - | 1,014,715 |
| Other instruction | 239,304 | - | - | - | 204,159 | 443,463 |
| | <u>3,864,886</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>270,315</u> | <u>4,135,201</u> |
| Support services: | | | | | | |
| Student services | 231,101 | - | - | - | - | 231,101 |
| Instructional staff services | 158,401 | - | - | - | - | 158,401 |
| Administration services | 573,344 | - | - | - | - | 573,344 |
| Operation and maintenance of plant services | 479,960 | - | - | - | 56,970 | 536,930 |
| Transportation services | 212,879 | - | 148,930 | - | - | 361,809 |
| | <u>1,655,685</u> | <u>-</u> | <u>148,930</u> | <u>-</u> | <u>56,970</u> | <u>1,861,585</u> |

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

| | General | Capital Projects | Physical Plant and Equipment Levy | Debt Service | Nonmajor Special Revenue | Total |
|---|-----------------------|-----------------------|--|------------------|--------------------------------|-------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Other expenditures: | | | | | | |
| AEA flowthrough | 231,258 | - | - | - | - | 231,258 |
| Long-term debt: | | | | | | |
| Principal | - | - | - | 125,000 | - | 125,000 |
| Interest | - | - | - | 9,813 | - | 9,813 |
| Facilities acquisition and construction | - | - | 260,086 | - | - | 260,086 |
| | <u>231,258</u> | <u>-</u> | <u>260,086</u> | <u>134,813</u> | <u>-</u> | <u>626,157</u> |
| Total expenditures | <u>5,751,829</u> | <u>-</u> | <u>409,016</u> | <u>134,813</u> | <u>327,285</u> | <u>6,622,943</u> |
| Excess (Deficiency) of revenues over (under) expenditures | <u>586,281</u> | <u>243,083</u> | <u>(124,740)</u> | <u>(134,813)</u> | <u>7,831</u> | <u>577,642</u> |
| Other financing sources (uses): | | | | | | |
| Operating transfers in | - | - | 60,000 | 134,813 | - | 194,813 |
| Operating transfers out | - | (60,000) | (134,813) | - | - | (194,813) |
| | <u>-</u> | <u>(60,000)</u> | <u>(74,813)</u> | <u>134,813</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over (under) expenditures and other financing uses | <u>586,281</u> | <u>183,083</u> | <u>(199,553)</u> | <u>-</u> | <u>7,831</u> | <u>577,642</u> |
| Fund balances beginning of year | <u>61,968</u> | <u>-</u> | <u>309,108</u> | <u>-</u> | <u>116,233</u> | <u>487,309</u> |
| Fund balances end of year | <u><u>648,249</u></u> | <u><u>183,083</u></u> | <u><u>109,555</u></u> | <u><u>-</u></u> | <u><u>124,064</u></u> | <u><u>1,064,951</u></u> |

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 577,642

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 265,677

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|----------------------|------------------|---------|
| Capital outlays | 900,245 | |
| Depreciation expense | <u>(168,974)</u> | 731,271 |

Early retirement expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: 19,344

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 125,000

Change in net assets of governmental activities (Exhibit B) \$ 1,718,934

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

| | |
|------------------------------|----------------------|
| | School Nutrition |
| | <u>\$</u> |
| Operating revenue: | |
| Local sources: | |
| Charges for services | <u>191,617</u> |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 120,340 |
| Benefits | 35,513 |
| Services | 408 |
| Supplies | 182,685 |
| Depreciation | <u>2,203</u> |
| Total operating expenses | <u>341,149</u> |
| Operating (loss) | <u>(149,532)</u> |
| Non-operating revenues: | |
| State sources | 4,542 |
| Federal sources | 132,892 |
| Interest income | <u>137</u> |
| | <u>137,571</u> |
| Changes in net assets | (11,961) |
| Net assets beginning of year | <u>26,471</u> |
| Net assets end of year | <u><u>14,510</u></u> |

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

| | School Nutrition |
|---|---------------------|
| | \$ |
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | 192,042 |
| Cash payments to employees for services | (155,853) |
| Cash payments to suppliers for goods or services | (161,947) |
| Net cash (used in) operating activities | (125,758) |
| Cash flows from non-capital financing activities: | |
| State grants received | 4,542 |
| Federal grants received | 114,709 |
| Net cash provided by non-capital financing activities | 119,251 |
| Cash flows from investing activities: | |
| Interest on investments | 137 |
| Net (decrease) in cash and cash equivalents | (6,370) |
| Cash and cash equivalents beginning of year | 6,370 |
| Cash and cash equivalents end of year | - |
| Reconciliation of operating income (loss) to net cash used in operating activities: | |
| Operating (loss) | (149,532) |
| Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities: | |
| Depreciation | 2,203 |
| Decrease in other receivables | 425 |
| Commodities used | 18,183 |
| (Increase) in inventory | (44) |
| Increase in accounts payable | 3,007 |
| | (125,758) |
| Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet: | |
| Current assets: | |
| Cash | - |
| Non-cash investing, capital and financing activities: | |

During the year ended June 30, 2005, the District received federal commodities valued at \$18,183.

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

| | Agency Fund |
|-----------------------------|----------------|
| | <hr/> |
| | \$ |
| Assets | |
| Cash and pooled investments | <hr/> |
| | 10,223 |
| Total assets | <hr/> |
| | 10,223 |
| Liabilities | |
| Accounts payable | <hr/> |
| | 10,223 |

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Emmetsburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Emmetsburg, Iowa, and agricultural area in Palo Alto County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Emmetsburg Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Emmetsburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Palo Alto County Assessor Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District from administering its flex spending plan.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| | |
|-----------------------------------|----------|
| Land | \$ 1,000 |
| Buildings | 10,000 |
| Improvements other than buildings | 10,000 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 10,000 |
| Other furniture and equipment | 10,000 |

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

| | |
|-----------------------------------|-------------|
| Buildings | 50 years |
| Improvements other than buildings | 20-50 years |
| Furniture and equipment | 5-15 years |

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | 10,000 | - | - | 10,000 |
| Capital assets being depreciated: | | | | |
| Buildings | 4,279,381 | 648,633 | - | 4,928,014 |
| Furniture and Equipment | 835,164 | 251,612 | - | 1,086,776 |
| Total capital assets being depreciated | 5,114,545 | 900,245 | - | 6,014,790 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,210,550 | 120,532 | - | 2,331,082 |
| Furniture and Equipment | 832,893 | 48,442 | - | 881,335 |
| Total accumulated depreciation | 3,043,443 | 168,974 | - | 3,212,417 |
| Total capital assets being depreciated, net | 2,071,102 | 731,271 | - | 2,802,373 |
| Governmental activities, capital assets, net | 2,081,102 | 731,271 | - | 2,812,373 |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|----------------|-----------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Business type activities: | | | | |
| Furniture and equipment | 125,304 | 0 | - | 125,304 |
| Less accumulated depreciation | <u>117,106</u> | <u>2,203</u> | <u>-</u> | <u>119,309</u> |
| Business type activities capital assets, net | <u>8,198</u> | <u>(2,203)</u> | <u>-</u> | <u>5,995</u> |

Depreciation expense was charged to the following function:

Governmental activities:

Support services:

Plant operation and maintenance

Transportation services

99,507

69,467

168,974

Business Type activities

Food service operations

2,203

2,203

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts are maintained for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

| Series | Warrant Date | Final Warrant Maturity | Investment | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|-----------------|------------------------------|--------------------|-----------------------------------|---------------------|--------------------------------|
| 2004-03A | 6/30/04 | 6/30/05 | \$ - | - | - | - |
| 2004-05B | 1/28/05 | 1/27/06 | 508,465 | 6,889 | 507,000 | 7,438 |
| 2005-06A | 6/30/05 | 6/30/06 | <u>547,415</u> | <u>117</u> | <u>545,000</u> | <u>105</u> |
| Total | | | <u>\$1,055,880</u> | <u>7,006</u> | <u>1,052,000</u> | <u>7,543</u> |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2005.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

| Series | Interest Rates on Warrants | Interest Rates on Investments |
|----------|-------------------------------|----------------------------------|
| 2004-05A | 3.000% | 2.463% |
| 2004-05B | 3.500% | 2.280% |
| 2005-06A | 3.500% | 3.903% |

(5) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

| | <u>Capital Loan Notes</u> |
|---------------------------|-------------------------------|
| Balance beginning of year | \$375,000 |
| Additions | - |
| Reductions | <u>125,000</u> |
| Balance end of year | <u>\$250,000</u> |

Capital Loan Notes Payable

Details of the District's June 30, 2005 Capital Loan Notes Payable are as follows:

| <u>Year Ending June 30,</u> | <u>Interest Rates</u> % | <u>Interest</u> \$ | <u>Principal</u> \$ | <u>Total</u> \$ |
|-------------------------------------|--------------------------------|-----------------------|------------------------|--------------------|
| 2006 | 2.65 | 7,000 | 125,000 | 132,000 |
| 2007 | 2.95 | <u>3,687</u> | <u>125,000</u> | <u>128,687</u> |
| Total | | <u>10,687</u> | <u>250,000</u> | <u>260,687</u> |

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have attained the age of 55 on or before June 1 of the year of retirement but not exceeded the age of 62 when the benefit is elected. For benefits to be payable, the licensed employee must have completed at least 15 years of full-time service in the district, the last 10 years of which must be continuous employment. The early retirement benefit for each eligible employee is equal to the difference between BA step 4 and the salary reflected from the employee's position on the salary schedule. The benefit (for those electing the cash payment option) shall be payable one-half (½) on September 15 and one-half (½) on January 15 following retirement. For those electing the insurance option, the insurance premiums will be paid until the funds are exhausted. Early retirement benefits paid during the year ended June 30, 2005 totaled \$46,814. The cost of early retirement payments expected to be liquidated currently is recorded as a long-term liability in the amount of \$20,664.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$210,020, \$212,648, and \$225,386 respectively, equal to the required contributions for each year.

(7) Risk Management

Emmetsburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$231,258 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|------------------|
| Special Revenue: | | |
| Physical Plant and | | |
| Equipment Levy | Capital Projects | \$ 60,000 |
| Debt Service | Special Revenue: | |
| | Physical Plant and | |
| | Equipment Levy | <u>134,813</u> |
| | | <u>\$194,813</u> |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(10) Related Party Transactions

The District had \$35,530 of business transactions between the District and District officials during the year ending June 30, 2005. These are described in the Schedule of Findings on Page 42.

Required Supplementary Information

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

| | Governmental Fund Types | Proprietary Fund Type | Total | Budgeted Amounts | | Final to Actual Variance - Positive (Negative) |
|---|----------------------------|--------------------------|-----------|------------------|-------------|--|
| | Actual | Actual | Actual | Original | Final | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Receipts: | | | | | | |
| Local sources | 4,000,958 | 192,179 | 4,193,137 | 4,199,699 | 4,199,699 | (6,562) |
| State sources | 2,932,086 | 4,542 | 2,936,628 | 2,816,172 | 2,816,172 | 120,456 |
| Federal sources | 208,250 | 114,709 | 322,959 | 258,000 | 258,000 | 64,959 |
| Total receipts | 7,141,294 | 311,430 | 7,452,724 | 7,273,871 | 7,273,871 | 178,853 |
| Disbursements: | | | | | | |
| Instruction | 4,045,373 | - | 4,045,373 | 4,530,896 | 4,530,896 | 485,523 |
| Support services | 1,861,585 | - | 1,861,585 | 1,847,000 | 2,500,000 | 638,415 |
| Non-instructional programs | - | 317,800 | 317,800 | 718,000 | 718,000 | 400,200 |
| Other expenditures | 745,614 | - | 745,614 | 601,104 | 1,000,000 | 254,386 |
| Total disbursements | 6,652,572 | 317,800 | 6,970,372 | 7,697,000 | 8,748,896 | 1,778,524 |
| Excess (deficiency) of receipts over (under) disbursements | 488,722 | (6,370) | 482,352 | (423,129) | (1,475,025) | 1,957,377 |
| Other financing sources (uses) | - | - | - | - | - | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 488,722 | (6,370) | 482,352 | (423,129) | (1,475,025) | 1,957,377 |
| Balance beginning of year | 446,944 | 6,370 | 453,314 | 191,842 | 191,842 | 261,472 |
| Balance end of year | 935,666 | - | 935,666 | (231,287) | (1,283,183) | 2,218,849 |

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

| | Governmental Fund Type | | |
|--------------------------------|------------------------|------------------------|------------------------------|
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | 7,141,294 | (21,213) | 7,200,585 |
| Expenditures | 6,652,572 | 35,072 | 6,622,943 |
| Net | 488,722 | (56,285) | 577,642 |
| Other financing sources (uses) | - | - | - |
| Beginning fund balances | 446,944 | 40,365 | 487,309 |
| Ending fund balances | 935,666 | (15,920) | 1,064,951 |

| | Proprietary Fund Type | | |
|-------------------------|-----------------------|------------------------|------------------|
| | Enterprise | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | 311,430 | 17,758 | 329,188 |
| Expenditures | 317,800 | 23,349 | 341,149 |
| Net | (6,370) | (5,591) | (11,961) |
| Beginning fund balances | 6,370 | 20,101 | 26,471 |
| Ending fund balances | - | 14,510 | 14,510 |

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$917,083.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

| | Management | Student Activity | Total |
|--|----------------|---------------------|----------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Cash and pooled investments | 42,526 | 78,102 | 120,628 |
| Property tax receivable: | | | |
| Current year | 2,131 | - | 2,131 |
| Succeeding year | 125,000 | - | 125,000 |
| Other receivables | - | 1,726 | 1,726 |
| Total assets | <u>169,657</u> | <u>79,828</u> | <u>249,485</u> |
| Liabilities and Fund Equity | | | |
| Liabilities: | | | |
| Accounts payable | - | 421 | 421 |
| Deferred revenue: | | | |
| Succeeding year property tax | 125,000 | - | 125,000 |
| | <u>125,000</u> | <u>421</u> | <u>125,421</u> |
| Fund equity: | | | |
| Unreserved fund balance | 44,657 | 79,407 | 124,064 |
| | <u>44,657</u> | <u>79,407</u> | <u>124,064</u> |
| Total liabilities and fund equity | <u>169,657</u> | <u>79,828</u> | <u>249,485</u> |

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

| | Management | Student Activity | Total |
|---|----------------------|----------------------|-----------------------|
| | \$ | \$ | \$ |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | 100,251 | - | 100,251 |
| Other | 1,142 | 233,650 | 234,792 |
| State sources: | 73 | - | 73 |
| Total revenues | <u>101,466</u> | <u>233,650</u> | <u>335,116</u> |
| Expenditures: | | | |
| Instruction: | | | |
| Regular instruction | 66,156 | - | 66,156 |
| Co-curricular instruction | - | 204,159 | 204,159 |
| Support services: | | | |
| Plant operation and maintenance | <u>56,970</u> | <u>-</u> | <u>56,970</u> |
| Total expenditures | <u>123,126</u> | <u>204,159</u> | <u>327,285</u> |
| Excess (deficiency) of revenues over (under) expenditures | (21,660) | 29,491 | 7,831 |
| Fund balance beginning of year | <u>66,317</u> | <u>49,916</u> | <u>116,233</u> |
| Fund balance end of year | <u><u>44,657</u></u> | <u><u>79,407</u></u> | <u><u>124,064</u></u> |

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Funds, Student Activity Accounts

Year ended June 30, 2005

| Account | Balance Beginning of Year | Interfund Transfers | Revenues | Expenditures | Balance End of Year |
|------------------------------|---------------------------------|------------------------|----------|--------------|---------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Activity Tickets | 26 | (12,040) | 12,044 | - | 30 |
| Rental Fees | 100 | (2,413) | 2,761 | 434 | 14 |
| V Show Choir Rental | 2,884 | - | 1,960 | 687 | 4,157 |
| JV Show Choir Rental | 3,044 | - | 870 | - | 3,914 |
| Concert Choir Uniform Rental | 368 | - | 534 | 20 | 882 |
| Gifts and Donations | 2,535 | - | 4,473 | 3,282 | 3,726 |
| Interest Earned | 812 | (721) | 3,047 | 2,955 | 183 |
| Elementary Art Fair | 266 | - | - | 333 | (67) |
| Jr Parents Prom Money | - | - | 16,621 | 421 | 16,200 |
| Tournaments | - | - | 27,788 | 27,788 | - |
| Middle School Music | - | - | 420 | 420 | - |
| HS Vocal Music | 100 | - | 7,879 | 8,931 | (952) |
| HS Instrumental Music | - | - | 1,372 | 1,223 | 149 |
| Swing Choir | - | 743 | - | 1,165 | (422) |
| Musical/Play | 559 | 494 | 2,401 | 3,453 | 1 |
| Pupil Insurance | - | - | 1,803 | 1,805 | (2) |
| FFA | 1,432 | 721 | 25,618 | 21,016 | 6,755 |
| Speech and Drama | - | 807 | 450 | 1,256 | 1 |
| Elementary Student Council | 1,348 | - | 7,103 | 5,257 | 3,194 |
| MS Student Council | 1,456 | - | 3,613 | 3,011 | 2,058 |
| HS Student Council | 5,898 | - | 5,492 | 5,134 | 6,256 |
| Concessions | 510 | - | 543 | 568 | 485 |
| Previous Year Aerie | - | - | 55 | - | 55 |
| Present Year Aerie | 1,028 | - | 12,635 | 11,536 | 2,127 |
| National Honor Society | 1 | 358 | 1,545 | 1,904 | - |
| Previous Classes | 147 | 243 | - | 243 | 147 |
| Class of 2005 | 153 | (243) | 2,039 | 1,943 | 6 |
| Class of 2006 | (57) | - | 22,430 | 21,430 | 943 |
| Class of 2003 | (167) | - | - | - | (167) |
| Class of 2004 | - | - | - | - | - |
| Class of 2007 | - | - | - | 144 | (144) |
| Class of 2008 | - | - | - | 60 | (60) |
| Cheerleaders | 2,047 | 113 | 3,992 | 5,289 | 863 |
| Peer Counseling | 105 | - | - | - | 105 |
| MS Boys Basketball | - | 730 | - | 730 | - |
| MS Girls Basketball | - | 945 | - | 945 | - |
| MS Football | - | 2,284 | - | 2,284 | - |
| MS Wrestling | - | 230 | - | 230 | - |
| MS Volleyball | - | 794 | - | 794 | - |
| MS Track | 124 | 185 | - | 309 | - |
| General Athletics | - | 3,010 | 135 | 2,842 | 303 |
| Volleyball Concessions | 146 | - | 685 | 1,156 | (325) |
| HS Boys Basketball | 8,577 | (1,058) | 7,745 | 6,002 | 9,262 |
| HS Football | 5,899 | (2,612) | 19,611 | 17,927 | 4,971 |
| HS Baseball | (955) | 3,081 | 3,178 | 6,030 | (726) |

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Funds, Student Activity Accounts

Year ended June 30, 2005

| Account | Balance Beginning of Year | Interfund Transfers | Revenues | Expenditures | Balance End of Year |
|---------------------|---------------------------------|------------------------|----------------|----------------|---------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| HS Wrestling | 2,459 | (557) | 18,866 | 13,654 | 7,114 |
| HS Boys Track | 131 | 2,063 | 244 | 2,824 | (386) |
| HS Boys Golf | - | 436 | 43 | 479 | - |
| HS Girls Basketball | 7,485 | (1,272) | 4,852 | 3,373 | 7,692 |
| HS Volleyball | - | - | 2,363 | 2,314 | 49 |
| HS Softball | (956) | 2,038 | 2,288 | 4,147 | (777) |
| HS Girls Track | 180 | 1,202 | 2,725 | 5,422 | (1,315) |
| HS Girls Golf | - | 439 | - | 461 | (22) |
| Journalism | 395 | - | - | - | 395 |
| Towels | 1,674 | - | 1,427 | 528 | 2,573 |
| Maier Fund | 162 | - | - | - | 162 |
| | <u>49,916</u> | <u>-</u> | <u>233,650</u> | <u>204,159</u> | <u>79,407</u> |

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

| | Years ended June 30, | | | |
|---|----------------------|------------------|------------------|------------------|
| | 2005 | 2004 | 2003 | 2002 |
| | \$ | | \$ | |
| Local sources: | | | | |
| Local tax | | | | |
| Property tax | 2,729,426 | 2,511,589 | 2,389,916 | 2,238,816 |
| Income surtaxes | 305,973 | 270,396 | 111,071 | 93,125 |
| Local option sales tax | 243,046 | - | - | - |
| Mobile home tax | 1,348 | 2,875 | 1,061 | 1,652 |
| | <u>3,279,793</u> | <u>2,784,860</u> | <u>2,502,048</u> | <u>2,333,593</u> |
| State sources: | | | | |
| State foundation aid | 2,362,774 | 2,353,806 | 2,519,428 | 2,472,922 |
| Instructional support state aid | 22,746 | 15,812 | 17,590 | - |
| Shelter care/juvenile home aid | - | - | - | 11,361 |
| School improvement and technology funding | - | - | - | 16,020 |
| Educational Excellence Program: | | | | |
| Phase I | 19,278 | 20,736 | 21,859 | 21,859 |
| Phase II | 55,870 | 58,527 | 62,084 | 64,040 |
| Phase III | - | - | 15,426 | 36,596 |
| AEA flow-through | 231,258 | 236,675 | 255,413 | 257,548 |
| Transportation aid non-public students | 19,669 | 21,409 | 20,867 | 28,322 |
| Textbook aid non-public students | 1,488 | 1,337 | 1,498 | 926 |
| Vocational education aid | 10,319 | 10,285 | 13,603 | 12,803 |
| Revenue in lieu of taxes - military credits | 1,976 | 1,834 | 1,815 | 1,868 |
| Lunch and breakfast program claims | 4,542 | 4,283 | 4,633 | 4,839 |
| Iowa Early Intervention Block Grant | 38,896 | 41,605 | 39,873 | 34,450 |
| Employability Skills | - | 1,000 | 5,046 | - |
| Non-public technology funds | - | - | - | 3,971 |
| Teacher mentoring | 6,500 | 5,200 | 5,200 | 3,900 |
| Evaluator training | - | - | 3,000 | - |
| Medicaid fund | 99,002 | 79,525+34,766 | - | - |
| Teacher compensation | 62,310 | 60,674 | 54,245 | 54,165 |
| | <u>2,936,628</u> | <u>2,833,183</u> | <u>3,041,580</u> | <u>3,025,590</u> |
| Federal sources: | | | | |
| Title I Grants to Local Educational Agencies | 115,929 | 88,261 | 118,002 | 125,610 |
| Special Education - Basic Grants to States | 36,996 | 31,550 | 33,959 | 30,903 |
| Innovative Educational Program Strategies | | | | |
| (Title VI) | 2,943 | 4,204 | 4,413 | 4,553 |
| Class Size Reduction | - | - | - | 20,862 |
| Improving Teacher Quality States Grants | 41,388 | 41,264 | 33,968 | - |
| Safe and Drug Free Schools and Communities - | | | | |
| States Grants | 4,320 | 3,398 | 6,323 | 3,050 |
| National School Lunch and Breakfast Programs | 114,709 | 100,588 | 99,223 | 100,269 |
| Food Distribution | 18,183 | 19,906 | 22,940 | 19,269 |
| School Renovation, IDEA and Technology Grant | - | - | 18,991 | - |
| Tech Prep Grant | 2,300 | 2,300 | 2,300 | - |
| Grants for Assessments and Related Activities | 4,374 | 4,512 | - | - |
| Iowa Demonstration Grant | - | - | 133,000 | - |
| Iowa Life Safety Demonstration Grant | - | - | 10,085 | - |
| Medicaid fund | - | 148,214 | - | - |
| Other Grants | - | 1,800 | - | 7,871 |
| | <u>341,142</u> | <u>445,997</u> | <u>483,204</u> | <u>312,387</u> |
| Total | <u>6,557,563</u> | <u>6,064,040</u> | <u>6,026,832</u> | <u>5,671,570</u> |

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Emmetsburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Emmetsburg Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Emmetsburg Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emmetsburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Emmetsburg Community School District and other parties to whom Emmetsburg Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Emmetsburg Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 23, 2005

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the amended certified budget amounts in any of the four functions.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

05-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------------|---------------|
| Dave Van Oosbree Board Member | Repairs | \$ 2,084 |
| Dan Cooper Builders Spouse of Board Member | West Elementary Addition, per bid | \$33,446 |

The transactions with Mr. Cooper do not appear to represent conflicts of interest since they were competitively bid in accordance with Chapter 279.7A of the Code of Iowa.

The transactions with Mr. Van Oosbree do not exceed the \$2,500 limit allowed by Iowa law.

Recommendation - We recommend that the District consult legal counsel regarding this matter.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

05-II-J Certified Enrollment - The number of basic students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification form for September, 2004 was understated. The District's certified enrollment count on line 1 did not include one home schooled/dual enrollment student who was enrolled as a resident student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Department of Education and the Department of Management.

Conclusion - Response accepted.